

Washington, D.C. — Congressman Joe Sestak (PA-7) today voted in favor of H.R. 698 a bill that he cosponsored prohibiting commercial firms from acquiring industrial banks.

“This bill is necessary to prevent businesses from getting in the practice of running banks,” said Congressman Sestak. “Industrial Loan Companies – or ILCs – are subject to fluctuations in the market and these fluctuations can put investors’ savings at risk, just as they were during the Great Depression.”

In the 1920s, commercial companies in our nation could and did own banks. Some of their failures contributed to the massive collapse of the banking system and the crisis of the Great Depression. Soon after, Congress began restricting commercial companies from owning banks. Unfortunately, one loophole in our laws remains.

When a bank is opened in America, it must apply for deposit insurance from the federal government. This coverage guarantees that should the bank fail, up to \$100,000 will be protected for each depositor. Banks owned by financial firms face less risk than those owned by commercial companies because they are not as exposed to market fluctuations. If companies such as Enron or WorldCom were allowed to own banks, the federal government could have potentially put billions of taxpayer dollars at risk.

Recently, commercial and industrial firms have discovered this loophole and have begun applying for charters. For instance, Wal-Mart, the nation’s largest retailer, had applied to own and operate a bank with federally insured deposits some 20 months ago. However, after Members of Congress petitioned the Federal Deposit Insurance Corporation (FDIC) to delay all commercial applications, including Wal-Mart’s, Wal-Mart withdrew their request for a bank.

“I cosponsored of H.R. 698 because I believe we must keep a separation between our banking and commerce,” Congressman Sestak stated. “The Industrial Bank Holding Company Act would bolster the authority of the FDIC, limit the business activities of certain ILCs already in existence, and most importantly, establish a cut-off date for new commercially-owned ILCs.”

Born and raised in Delaware County, former 3-star Admiral Joe Sestak served in the Navy for 31 years and now serves as the Representative from the 7th District of Pennsylvania. He led a series of operational commands at sea, including Commander of an aircraft carrier battle group of 30 U.S. and allied ships with over 15,000 sailors and 100 aircraft that conducted operations in Afghanistan and Iraq. After 9/11, Joe was the first Director of "DeepBlue," the Navy's anti-terrorism unit that established strategic and operations policies for the "Global War on Terrorism." He served as President Clinton's Director for Defense Policy at the National Security Council in the White House, and holds a Ph.D. in Political Economy and Government from Harvard University. According to the office of the House Historian, Joe is the highest-ranking former military officer ever to serve in the U.S. House of Representatives.

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